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## **Indonesia**

## **Cotton and Products Annual**

## **Indonesia Cotton and Products Annual Report 2011**

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**Report Highlights:**

High international cotton prices have severely impacted the Indonesian cotton spinners' capacity to import. For marketing year (MY) 2010/11, Post expects that Indonesia's cotton imports will decline to 1.848 million bales compared to 2.2 million bales in MY 2009/10. In MY 2011/12, the market share for U.S. cotton in Indonesia is also estimated to decline, primarily due to strong competition from Australia.

**Executive Summary:**

The Indonesian Ministry of Industry reported that in calendar year (CY) 2008, Indonesia was the world's 12<sup>th</sup> largest textile exporter, with total exports valued at \$10.1 billion. Relatively stable international cotton prices and higher international yarn prices created market conditions favorable for Indonesian imports to increase. As a result, Post revised MY 2009/10 Indonesian cotton imports to 2.2 million bales. The United States continues to be the largest supplier of cotton to Indonesia, despite fierce competition from Australia and African countries.

**Commodities:**

Cotton

**Production:**

Indonesia produces only 0.5 percent of their total domestic demand for cotton. Indonesian cotton producers receive little support from the Government of Indonesia (GOI) and farmers generally find that they have greater economic incentives to grow other crops. Increased land conversion to nonagricultural use also reduces the area dedicated to cotton. Furthermore, the recent La Nina weather pattern brought high levels of precipitation over the normal dry season in 2010, which significantly reduced cotton yields. Post estimates that in MY 2010/11, Indonesia's cotton production will decline to 25,000 bales from 30,000 bales in MY 2009/10.

Also, Indonesia has made no significant effort to increase cotton production since the utilization of Bt cotton seed in South Sulawesi was discontinued in 2001. South Sulawesi, East Java, West Nusa Tenggara, and Central Java are the main cotton producing areas.

**Consumption:**

According to an industry publication, the Indonesian textile and textile products industry employs about 1.3 million workers, which equates to 10.6 percent of the Indonesian total work force in 2009. The Indonesian textile industry also plays a significant and strategic role in the overall Indonesian macro-economy. According to data from the Bank of Indonesia, during the period of January – November 2010, the Indonesian textile and textile product exports contributed 7.4 percent to total Indonesian national exports. In CY 2009, Indonesia exported 37.6 percent of its textile and textile products to the United States, 18.9 percent to the European Union, 9.8 percent to the Middle East, 6.2 percent to other ASEAN countries, and 5.1 percent to Japan.

According to industry publications, the volume of Indonesian textile and textile products exports in CY 2009 increased by 0.44 percent to 1.8 million tons over the previous CY 2008, but the actual value declined by 8.82 percent to \$9.5 billion.

In the domestic market, Indonesian textile and textile products continue to face tough competition from imported products. In CY 2009, Indonesia imported approximately 1.3 million tons of textile and textile products, valued at \$3.9 billion. The Republic of Korea and China are among the largest suppliers of textiles to Indonesia. Also, with the implementation of the second phase of the ASEAN -

China Free Trade Agreement (ACFTA), the import duties of specific products under Normal Track 1 - including textile and textile products - were reduced to zero percent. This became effective in January 2010, and has been advantageous for Chinese textiles. Chinese products are generally cheaper than domestically produced textiles and are considered comparable in terms of quality.

In CY 2009, Indonesian textile mills ran at about 70 - 80 percent capacity - with a total of 7.85 million spindles and 110,000 rotors. Several fundamental problems hampered the growth of the industry. The majority of the machines used by the Indonesian industry are at least 20 years old. A GOI industry revitalization program, launched in 2007, has assisted in upgrading only six percent of the textile machines currently in use. Furthermore, higher interest rates make it more difficult for the industry to get commercial bank loans.

The higher prices of cotton in international markets tend to have the most significant impact on small and medium sized cotton spinners. Many smaller scale Indonesian spinners are currently struggling with increasing their working capital to continue operations, as well as cash flow problems. Current market conditions are forcing some spinners to take measures to reduce costs, to include:

1. Switching their raw materials to man-made fibers, or to blend cotton with synthetic fibers to reduce production costs.
2. Switching from producing course count yarn to high and/or fine count yarn as to reduce raw material expenses.
3. Switching to use lower quality raw materials.
4. Taking job orders from other manufacturers instead of producing for their own sales.
5. Reducing their production, or
6. Closing down operations. This last, more drastic option is more comment among those smaller mills that have cash flow problems.

Finally, compared to other Asian countries, Indonesian electricity tariffs are relatively high. Electricity supplies are also inconsistent, which can lead to production slow-downs and/or stoppages.

#### Comparison of Electricity Tariff in Asian Countries

Country	U.S. \$/kWH
Bangladesh	0.30
Republic Korea	0.60
Pakistan	0.66
Vietnam	0.70
Indonesia	0.80

Source: various, processed by Indonesian Textile Association

The United Nations International Labor Organization (ILO) reported that the productivity of Indonesian workers ranked number 59 compared to Thailand (ranked 27), Korea (ranked 29), and China (ranked 31). Indonesian textile workers are still largely unskilled. Importers must also pay 15 percent import duties to import textile chemicals, which is considerably higher than other Asian countries. Also, Indonesian port fees are considerably higher than other Asian countries and the GOI requires that these fees be paid in U.S. dollars rather than in the local currency.

Terminal Handling Charge (THC) for 20 feet containers in ASEAN countries

Country	THC – 20” in US\$
Indonesia	95
Malaysia	88
Singapore	120
Thailand	60
Vietnam	70

Source: various, processed by API.

As a result of the aforementioned situation, Post estimates that MY 2010/11 Indonesian cotton consumption will decrease to 1.870 million bales compared to 2.1 million bales in previous marketing year of MY 2009/10.

#### **Stocks:**

In line with the decreased cotton imports, Post estimates that MY 2010/11 Indonesian ending stock of cotton will decrease slightly to 457 thousand bales. However, Post also expects that due to increases of imports in MY 2011/12 stocks will likely to rebound to 518 thousand bales.

#### **Policy:**

The Indonesian industry's outdated textile machines amount to lower productivity levels, and increased energy and power usage. In 2007, the Indonesian Ministry of Industry launched a textile industry revitalization program under Minister of Industry Decree No. 141/M-IND/PER/10/2009. This program, aptly titled Machines Restructuring Program for Textile and Textile Products and Leather and Leather Products Small and Medium Enterprises, provides a 25 percent reimbursement to any textile company that purchased new textile machines. Additionally, if the new machines are domestically produced, the program provides a subsidy of up to a 30 percent of the cost of the machines. The reimbursement provided is not allowed to exceed Indonesian Rupiah (IDR) 2 billion (\$219,000) annually.

Based on the result of the Indonesian Trade Safeguard Commission's investigation into reports that an increased import volumes of bleached and unbleached woven fabrics of cotton led to serious domestic industry losses, the Indonesian Ministry of Trade recommended the Indonesian Ministry of Finance to impose safeguard duties for imports of these commodities. The safeguard import duty will be imposed as Most Favored Nation or Preferential Duty for three years with following details:

No.	Period	Safeguard Import Duty
1.	First Year, with one year period since the stipulation date of the Min. of Finance Regulation	IDR. 116,800/kg
2.	Second year, with one year period since the ending date of the first year period	IDR. 109,500/kg
3.	Third year, with one year period since the ending date of the second year period	IDR. 102,200/kg

Commodities subject to this regulation are those covered in the HS Code: 5208.11.00.00, 5208.12.00.00, 5208.13.00.00, 5208.19.00.00, 5208.23.00.00, 5208.29.00.00, 5209.29.00.00,

5210.11.00.00, 5211.11.00.00, 5211.12.00.00, 5212.11.00.00. The safeguard import duty will be imposed on all of the commodities imported from all countries except from the following countries:

No.	Country	No.	Country	No.	Country
1.	Albania	37.	Former Yugoslavia Macedonia	73.	Oman
2.	Angola	38.	Gabon	74.	Pakistan
3.	Antigua and Barbuda	39.	Georgia	75.	Panama
4.	Argentina	40.	Ghana	76.	Papua New Guinea
5.	Armenia	41.	Granada	77.	Paraguay
6.	Bahrain, Kingdom of	42.	Guatemala	78.	Peru
7.	Bangladesh	43.	Guinea	79.	Philippines
8.	Barbados	44.	Guinea Bissau	80.	Qatar
9.	Belize	45.	Guyana	81.	Rwanda
10.	Benin	46.	Haiti	82.	Saint Kitts and Nevis
11.	Bolivia	47.	Honduras	83.	Saint Lucia
12.	Botswana	48.	India	84.	Saint Vincent and the Grenadines
13.	Brazil	49.	Jamaica	85.	Saudi Arabia
14.	Brunei Darussalam	50.	Jordan	86.	Senegal
15.	Burkina Faso	51.	Kenya	87.	Sierra Leone
16.	Burundi	52.	Kuwait	88.	Solomon Islands
17.	Cambodia	53.	Kyrgyz Rep.	89.	South Africa
18.	Cameroon	54.	Lesotho	90.	Sri Lanka
19.	Cape Verde	55.	Macau, China	91.	Suriname
20.	Central African Rep.	56.	Madagascar	92.	Swaziland
21.	Chad	57.	Malawi	93.	Tanzania
22.	Chile	58.	Maldives	94.	Thailand
23.	Columbia	59.	Mali	95.	The Gambia
24.	Congo	60.	Mauritania	96.	Togo
25.	Costa Rica	61.	Mauritius	97.	Tonga
26.	Cote d' Ivory	62.	Mexico	98.	Trinidad and Tobago
27.	Croatia	63.	Moldova	99.	Tunisia
28.	Cuba	64.	Mongolia	100.	Uganda
29.	Democratic Rep. of Congo	65.	Morocco	101.	Ukraine
30.	Djibouti	66.	Mozambique	102.	United Arab Emirates
31.	Dominican	67.	Myanmar	103.	Uruguay
32.	Dominican Rep.	68.	Namibia	104.	Venezuela (Bolivarian Rep. of

					Venezuela)
33.	Ecuador	69.	Nepal	105.	Vietnam
34.	Egypt	70.	Nicaragua	106.	Zambia
35.	El Salvador	71.	Niger	107.	Zimbabwe
36.	Fiji	72.	Nigeria		

Imports of bleached and unbleached cotton woven fabrics from the exceptional countries and from countries that have trade agreement with Indonesia such as China, ASEAN, Australia, Japan, and New Zealand must be accompanied with Certificate of Origin. The regulation has been effective since the stipulation date of March 23, 2011.

### Marketing:

In CY 2009, the Ministry of Industry reported that there are 2,853 textile companies consisted of those in subsectors of fiber (30 companies), yarn (225 companies), fabric (1,067 companies), garment (996 companies), and others (535 companies). Total investment in this sector in CY 2009 is IDR 146 trillion – or approximately \$16.8 billion. Textile industry representatives report that the current price of cotton in the international market is much higher than the price of yarn. This condition affects Indonesian textile industry in the following three ways:

1. Those optimistic groups who buy cotton using fixed price for the long term have contracted shipments with lower prices for 2011 and may gain high returns.
2. Those conservative groups who buy cotton on call using basic prices and are expected to reach the break event point.
3. Those groups who believe prices are too high and did not buy have suffered losses over the past 3-4 months.

Given the above-mentioned situation, Post estimates that Indonesian imports of cotton in MY 2010/11 will decrease to 1,848 million bales, compared to 2.2 million bales in MY 2009/10. Post currently forecasts that MY 2011/12 cotton import levels will rebound to 2.0 million bales, as some spinners have already contracted for 2012 shipments at prices which are lower than current prices.

Despite facing stiff competition from Australian and African cotton suppliers, the United States remains the largest supplier of cotton to Indonesia. According to Global Trade Atlas, in MY 2009/10 the United States held 2 a 6 percent market share, followed by Brazil (17.3 percent), Australia (13 percent), and India (11 percent). Despite high levels of contamination, the quality of cotton from India, Brazil, and African countries are considered adequate by Indonesian industry standards. Post estimates that in MY 2011/12 the United States will slightly lose its market share given the projected jump in Australia's cotton production.

### Production, Supply and Demand Data Statistics:

TABLE 1. PSD COTTON (HS CODE 5201, 5202, AND 5203) IN BALES

Cotton Indonesia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Aug 2009		Market Year Begin: Aug 2010		Market Year Begin: Aug 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Area Planted	0	10	0	10		10
Area Harvested	10	10	10	9		9
Beginning Stocks	349	349	364	464		457
Production	30	30	30	25		25
Imports	2,100	2,200	1,925	1,848		2,000
MY Imports from U.S.	0	657	0	808		600
Total Supply	2,479	2,579	2,319	2,337		2,483
Exports	15	15	20	10		10
Use	2,050	2,050	1,900	1,820		1,900
Loss	50	50	50	50		55
Total Dom. Cons.	2,100	2,100	1,950	1,870		1,955
Ending Stocks	364	464	349	457		518
Total Distribution	2,479	2,579	2,319	2,337		2,483
Stock to Use %	18	22	18	25		27
Yield	653.	653.	653.	617.		617.
TS=TD		-0		0		0

Note: last column of each marketing year is not official USDA data.

TABLE 2. PSD COTTON (HS CODE 5201, 5202, AND 5203) IN MT

Cotton Indonesia	2009/2010		2010/2011		2011/2012		
	Market Year Begin: Aug 2009		Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		
	USDA Official	New Post	USDA Official	New Post	USDA Official	Old Post	New Post

Area Planted	0	10	0	10		10
Area Harvested	10	10	10	9		9
Beginning Stocks	75,987	75,986	79,252	101,017		99,596
Production	6,532	6,532	6,532	5,552		5,552
Imports	457,226	478,990	419,124	402,352		435,452
MY Imports from U.S.	0	143,110	0	176,004		130,636
Total Supply	539,744	561,508	504,908	508,921		540,600
Exports	3,266	3,266	4,355	2,177		2,177
Use	446,339	446,339	413,680	396,262		413,680
Loss	10,886	10,886	10,886	10,886		11,974
Total Dom. Cons.	457,226	457,225	424,567	407,148		425,654
Ending Stocks	79,252	101,017	75,987	99,596		112,769
Total Distribution	539,744	561,508	504,908	508,921		540,600
Stock to Use %	18	22	18	25		27
Yield	653.	653.2	653.	617		617
TS=TD		0		0		0

Note: Last column of each Marketing Year is not official USDA data.

**Author Defined:**  
TRADE MATRIXES

TABLE 3. COTTON IMPORT TRADE MATRIX (MY 2008 - 2010)



Import Trade Matrix					
Country	Indonesia				
Commodity	Cotton				
Time Period	Aug - Jul	Units:	1,000 MT		
Imports for:	2008/2009	Imports for:	2009/2010		2010/2011*
U.S.	233	U.S.	165	U.S.	27
Others		Others		Others	
Brazil	115	Brazil	111	Brazil	32
Australia	70	Australia	84	Australia	31
India	21	India	70	Burkina Faso	6
Greece	14	Burkina Faso	29	India	5
Zimbabwe	14	Tanzania	24	Argentina	4
Tanzania	13	Pakistan	19	South Africa	3
South Africa	11	Benin	14	Zimbabwe	3
Singapore	9	Greece	13	Mali	3
Mozambique	7	Mali	12	Central African Rep.	1
Central African Rep.	6	Zimbabwe	12	Benin	1
Burkina Faso	5	Cote d'Ivoire	11	Togo	1
Pakistan	5	Mozambique	11	Cameroon	1
Benin	5	Malawi	8	Mozambique	1
Total for Others	295	Total for Others	418		92
Others not Listed	55	Others not Listed	57		15
Grand Total	583	Grand Total	640		134

Source: Global Trade Atlas.

Note: For MY 2010/11 only for Aug-Oct 2010.

TABLE 4. COTTON EXPORT TRADE MATRIX (MY 2008 – 2010)

Export Trade Matrix					
Country	Indonesia				
Commodity	Cotton				

Time Period	Aug-Jul	Units:	1000 MT		
Exports for:	2008/09		2009/10		2010/11*
U.S.	1	U.S.	3	U.S.	0
Others		Others		Others	
Japan	6	Japan	5	Japan	1
Taiwan	4	Taiwan	4	Taiwan	1
Vietnam	3	Hong Kong	4	Hong Kong	1
Germany	2	Russia	2	Thailand	1
Hong Kong	2	Germany	2	China	1
Belgium	1	China	1		
Philippines	1	Philippines	1		
Thailand	1	Italy	1		
		Vietnam	1		
		Thailand	1		
Total for Others	20		22		5
Others not Listed	6		3		2
Grand Total	27		28		7

Source: Global Trade Atlas.

Note: For MY 2010/11 only for Aug-Oct 2010.

TABLE 5. COTTON YARN IMPORT TRADE MATRIX (CY 2008 – 2010)

<b>Import Trade Matrix</b>					
<b>Country</b>	Indonesia				
<b>Commodity</b>	Yarn				
Time Period	Jan-Dec	Units:	1,000 MT		
Exports for:	2008		2009		2010
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
China	9	China	5	China	4
Taiwan	7	Taiwan	4	Malaysia	2
Pakistan	3	Pakistan	4	Taiwan	2
Thailand	3	Malaysia	3	India	2
Hong Kong	2	Thailand	3	Vietnam	2
India	2	Hong Kong	1	Thailand	1
Malaysia	1	India	1	Pakistan	1
Total for Others	27	Total for Others	21		14
Others not Listed	2	Others not Listed	0		0
Grand Total	29	Grand Total	21		0

Source: Global Trade Atlas.

TABLE 6. COTTON YARN EXPORT TRADE MATRIX (CY 2008 – 2010)

<b>Export Trade Matrix</b>					
<b>Country</b>	Indonesia				
<b>Commodity</b>	Yarn				

Time Period	Jan-Dec	Units:	1,000 MT		
Exports for:	<b>2008</b>		<b>2009</b>		<b>2010</b>
U.S.	2		2	U.S.	2
Others		Others		Others	
South Korea	15	South Korea	17	South Korea	16
Japan	12	China	14	China	16
China	9	Japan	10	Japan	13
Malaysia	7	Sri Lanka	7	Sri Lanka	6
Sri Lanka	6	Malaysia	6	Hong Kong	6
Hong Kong	5	Hong Kong	4	Malaysia	3
Philippines	3	Egypt	3	Bangladesh	2
Egypt	2	Bangladesh	2	Turkey	2
Bangladesh	2	Portugal	2	Egypt	2
Portugal	2	Philippines	2	Taiwan	2
Germany	2	Turkey	2	Portugal	1
Brazil	1	Taiwan	1	Argentina	1
Total for Others	66	Total for Others	70		70
Others not Listed	11	Others not Listed	12		9
Grand Total	79	Grand Total	84		81

Source: Global Trade Atlas.

TABLE 7. COTTON FABRIC IMPORT TRADE MATRIX (CY 2010)

Import Trade Matrix	
Country	Indonesia
Commodity	Fabric
Units:	1,000 MT
Time Period	Jan-Dec
Exports for:	2010
U.S.	
Others	
China	49
Korea, Rep. of	16
Hong Kong	15
Taiwan	6
India	4
Malaysia	4
Vietnam	4
Pakistan	2
Thailand	2
Total for Others	102
Others not Listed	3
Grand Total	105

Source: Global Trade Atlas.

TABLE 8. COTTON FABRIC EXPORT TRADE MATRIX (CY 2010)

Export Trade Matrix	
Country	Indonesia
Commodity	Fabric

Units:	1,000 MT
Time Period	Jan-Dec
Exports for:	2010
U.S.	6
Others	
Korea, Rep. of	25
Japan	25
China	20
Sri Lanka	9
Hong Kong	8
Bangladesh	6
Turkey	6
Malaysia	4
Philippines	4
Venezuela	4
Egypt	3
Germany, Fed. Rep.	3
Italy	3
Portugal	3
Russia Federation	3
Taiwan	3
Vietnam	3
Belgium	2
Brazil	2
Spain	2
Netherlands	1
South Africa	1
Thailand	1
Total for Others	141
Others not Listed	14
Grand Total	161

Source: Global Trade Atlas.

TABLE 9. TEXTILE PRODUCTION IN 2008 – 2009

Value of Textile Production in 2008 and 2009 (In millions of dollars)

Products	2008		2009	
	Value	Volume	Value	Volume
Manmade Fibers	1,008	1,009	940	1,017
Yarns	4,086	2,199	3,729	2,207
Fabrics	4,605	1,297	3,858	1,107
Garments	6,532	483	5,546	410
Other Textile Products	509	101	452	102
TOTAL	16,740	5,089	14,525	4,843

Source: Indonesian Investment Coordination Board (BKPM), Indonesian Statistics Agency (BPS), and Ministry of Industry (MOI).

TABLE 10. TEXTILE AND TEXTILE PRODUCT EXPORTS IN 2008 – 2009

Value of Textile and Textile Products Exports in 2008 – 2009(\$1,000)

Products	2008	2009
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	Value	Volume	Value	Volume
Manmade Fibers	445	271	382	286
Yarns	1,719	680	1,601	723
Fabrics	1,610	307	1,316	255
Garments	6,016	415	5,659	390
Other Textile Products	353	95	303	104
TOTAL	10,143	1,768	9,261	1,758

Source: BKPM, BPS, and MOI

TABLE 10. TEXTILE AND TEXTILE PRODUCT IMPORTS IN 2008 – 2009  
Value of Textile and Textile Products Imports in 2008 – 2009 (In \$ 1,000)

Products	2008		2009	
	Value	Volume	Value	Volume
Manmade Fibers	1,637	917	1,181	749
Yarns	448	135	335	110
Fabrics	2,559	392	2,215	335
Garments	233	40	214	38
Other Textile Products	226	72	227	61
TOTAL	5,103	1,556	4,172	1,293

Source: Indonesian Investment Coordination Board (BKPM), Indonesian Statistics Agency (BPS), and Ministry of Industry (MOI)

Note: Exchange rate is Rp. 8,708/\$ 1, as of March 30, 2011.